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UNCLAS SECTION 01 OF 03 COLOMBO 002196

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STATE PASS USTR FOR DEPUTY USTR AMBASSADOR HUNTSMAN

E.O. 12958: N/A

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SUBJECT: SRI LANKA: FIRST JOINT COUNCIL MEETING UNDER NEW TIFA

1. Summary: In the first Joint Council meeting under the US - Sri Lanka TIFA, the GSL identified its goal as an eventual Free Trade Agreement, and, in the interim, stronger ties in the bilateral trade relationship and in the WTO. The US representatives focused on the USG commitment to closer cooperation on the global trade agenda and in the bilateral relationship, noting that the peace process will bring confidence, which will lead to new opportunities for the US private sector. End Summary.

2. The first Trade and Investment Council meeting under the recently-signed Trade and Investment Framework Agreement was held in Colombo on November 20, led by Deputy USTR Ambassador Jon Huntsman and Sri Lankan Minister of Commerce and Consumer Affairs, Minister Ravi Karunanayake. Representatives on the US side included Ambassador Wills, USTR Senior Director Elena Bryan, and Embassy Economic Officers. The Sri Lankan delegation of over 20 members included Minister of Enterprise Development and Industrial Policy GL Peiris, Board of Investment (BoI) Chairman Arjunna Mahendran, Ambassador-Designate to the US Davinda Subasinghe, the GSL representative to the WTO, KY Weerasinghe, and many members of the Department of Commerce.

3. Minister Karunanayake stated at the start that the ultimate goal of the GSL was a Free Trade Agreement with the US, as soon as possible. He outlined some steps the GSL was taking which would make it a more attractive FTA partner, including good governance, pursuit of peace, closer relations with the US and privatization. Minister Peiris emphasized the important role of trade and economic freedom in the current GSL peace efforts, and said Sri Lanka needs a stronger trade relationship with the US. Ambassador Huntsman outlined the US goals, including the desire to strengthen ties, use the TIFA as a building block to further shared commitments, and establish broad cooperation on the global and bilateral trade agenda. Ambassador Huntsman also explained his desire to bring back a positive message to the US private sector about new developments and opportunities in Sri Lanka.

Investment Opportunities

4. In the overview, BoI Chairman Mahendran said Sri Lanka is taking advantage of the high profile recently created by the peace process and the Prime Minister's investment promotion trip to New York. He said Sri Lanka is fully compliant with labor best practices, and ILO conventions. He thought new opportunities for US investment would be found in infrastructure projects (especially ports and airports) to make Sri Lanka a regional logistics hub, tourism, mineral extraction, information and communications technology, apparel and textiles, and agriculture. When asked about restrictions on foreign purchase of land and import of seed varieties, Minister Karunanayake promised an answer within two weeks.

5. Ambassador Huntsman urged the GSL to act soon in attracting US investors, and advised that a predictable, stable, and transparent environment would be critical. Once the GSL had targeted specific infrastructure needs, focused trade missions could come from the US. While describing the President's trade agenda, Ambassador Huntsman emphasized that the Doha Agenda was a high priority.

IPR

6. Dr. Karunanratne from the GSL IPR Office briefed the Council on new IPR legislation that is expected to be approved by Parliament by early next year. He said it goes beyond TRIPS, and incorporates comments submitted by interested US parties. Karunanratne said the GSL was progressing aggressively on enforcement problems by planning to train lawyers, judges, and enforcement personnel, by designating the Commercial High Court for cases, and by conducting public outreach. He said the GSL needed technical assistance in this area. Both

Ambassador Wills and Ambassador Huntsman promised to examine areas for possible US assistance.

WTO

17. KJ Weerasinghe said that the solution to outstanding issues is in implementation, and that Sri Lanka wants to be constructive in accomplishing the Doha agenda. On agriculture, he said, Sri Lanka agrees to liberalization, but wants to protect poor, rural farmers. On tariff and subsidy reductions, the GSL does not have these supports, but wants flexibility to accommodate rural farmers and to mitigate the price increase that net food importers would experience as the new WTO proposals are adopted. Sri Lanka does not have any instrument, other than tariff levels, to protect against import surges. He relayed that the EU had asked for the GSL's support on this. He also said the US proposal does not address special and differentiated (S and D) treatment for LDCs.

18. Ambassador Huntsman responded that it is important to meet the March deadlines, and the US would work with the GSL on these issues. This was the only chance to get agriculture on an international agenda. He continued that the US does not want a two-track system with S and D countries, rather the same goals for all, with the S and D treatment applying to the length of the transition periods. If there are two tracks, he said, one may be seen as lower quality.

19. Services: Weerasinghe said the current government wants Sri Lanka to become a services hub and plans to eliminate measures that would create market impediments. It had already liberalized many sectors, and is currently looking at a strategy to open the tertiary education and wholesale/retail sectors and review the GATS commitment. Both Minister Karunanayake and Ambassador-designate Subasinghe noted that education was a sensitive area. Under services, Weerasinghe said the GSL wants also to look at the movement of persons to support and provide services outside Sri Lanka. He noted that Sri Lanka's list of sectors to be liberalized, which would include air transport, call/service centers and exchange controls in the financial sector, would be ready by December.

110. Market access: Weerasinghe said the GSL was waiting to see what proposal would be made for reduction commitments, and that Sri Lanka would have the same problems as with agriculture if the Swiss formula is applied. He said there was a lack of clarity about the removal or elimination of tariffs. Ambassador Huntsman replied that the US plans to take a comprehensive approach and will submit its package in early December.

111. Government procurement: Weerasinghe noted a number of issues of concern: that it covers government but not market aspects, the application to foreign procurement, threshold adjustments for different size countries, flexibility allowed for procurement objectives, and whether a WTO decision could override a domestic decision. He said that the GSL would comment on the US proposal the following week. Ambassador Huntsman conveyed his appreciation for Sri Lanka's commitment to the process, and hoped that by the time of the Cancun meeting differences would be resolved. He continued that the US would like to see Sri Lanka be a leader in this area.

112. Small Economies and Geographic Indicators: Weerasinghe said that Sri Lanka should be included in the group that would address problems and recommend solutions, and that population should not be the judgement criteria for membership. Ambassador Huntsman said that would be a practical approach, and that the different transition periods would address the different needs, rather than a two-tiered system. On Geographic Indicators, Weerasinghe said the GSL wanted protection for items in addition to wine and spirits, e.g., spices and tea. Ambassador Huntsman cautioned the GSL, saying it must be careful to consider what is already protected under TRIPS (and the US Patent Office), and make the most of that protection. Since the EU had tabled thousands of items for protection, proliferation of geographic indicators could become a nightmare for WTO.

113. SPS and TBT: On SPS and TBT Agreements, Weerasinghe said Sri Lanka had difficulties implementing the provisions because it lacks administrative capacity, personnel and equipment. He requested Technical Assistance to help Sri Lanka fulfill its obligations, and later submitted a list outlining the GSL requests. Ambassador Huntsman noted that the US intends to make use of a variety of resources to assist, and that the US team wants to hear how effective the WTO and USG

assistance is. There are many sources of help, he said, including aid, universities, businesses, and trade associations. He wanted to hear what worked and what the Sri Lanka priorities are.

Conclusion

14. Wrapping up, Minister Karunanayake said Sri Lanka wants to receive the benefits of LDC status, and wants an international partner in sectors such as phosphate mining, tea and port building. Sri Lanka, he said, must show its commitment to carry out reforms, and work toward a FTA with the US. Ambassador Huntsman said though that could be the ultimate goal, he warned against getting ahead of the TIFA process and building unrealistic expectations. An incremental pace of engaging the US, including developing the interest and trust of the private sector, generating political support and reducing the trade deficit (currently 10:1 in Sri Lanka's favor) should be the GSL's medium term goals. Ambassador Huntsman said that the next Council meeting could take place in WDC in Spring 2003. He committed to accompanying the Sri Lanka delegation to Chambers of Commerce, and to help deepen and broaden cooperation.

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